Research Update:

Europe's Leading Payment Company Worldline Rated 'BBB'; Outlook Stable

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Rating Action Overview

- France-based Worldline SA has predictable cash flows, and broad product and geographic diversification, but faces technology risks and competition from many players.
- We consider Worldline's balance sheet to be robust, but expect recent acquisitions could push our adjusted leverage metric to about 2.2x in 2019 from 0.8x in 2018, before it returns to 1.5x or lower in 2020.
- We are assigning our 'BBB' issuer credit rating to Worldline.
- The outlook is stable because we expect Worldline will post healthy organic revenue and EBITDA growth, with annual free operating cash flow (FOCF) surpassing €270 million and adjusted debt to EBITDA of 1.5x-2.5x.

Rating Action Rationale

Worldline has established a solid position in Europe's payment market. It generates a high proportion of recurrent revenues and strong cash flow, shows good diversification and has sound growth opportunities. This is underscored by Worldline's strong balance sheet, although we recognize that the company will likely make further acquisitions.

Worldline is the largest payment services providers in Europe, with annual revenues of €2.2 billion, and benefits from leading positions in some segments, including as the No. 1 issuing processor in Germany and Belgium and No. 1 commercial acquirer in Belgium, Switzerland, Luxembourg, and Austria. Worldline's acquisition of the Swiss payment service provider Six Payment Services (SPS) in November 2018 helped strengthened its position in Europe in financial processing and commercial acquiring, with market shares of 20% and 10% respectively.

The company benefits from very low customer turnover among banks and merchants, given high barriers to entry, which results in predictable revenues and cash flows. In Financial Services, which generates about 39% of revenues, Worldline benefits from long-term contracts with customers and we understand the renewal rate is close to 100%, due to the critical role Worldline's solutions play for its bank clients. In the Merchant Services segment (46% of revenues), Worldline also demonstrates an impressive renewal rate of above 90%. Customer turnover is somewhat higher in the Mobility & e-Transactional Services division (15% of revenues), and the company lost two relatively large contracts in 2015 and 2016. That said, Worldline has traditionally enjoyed strong renewal rates from governments in this segment.

Another strength is Worldline's product, customer, and geographic diversification. It has a broad range of products and services, which covers the entire payment infrastructure industry, including issuer and acquirer processing, commercial acquiring, services to issuers and merchants (such as payment terminals and online payments). It has a diverse customer base comprising more than 400,000 merchants, 320 banks, and 350 large customers that consist of governments and companies operating in specific industries, including transport, telecommunications, and media. Furthermore, no single customer accounts for more than 5% of revenues, and the 10 largest customers represent only 27% of revenues. Worldline is also present in 32 countries, although it generated about 35% of revenues in the first half of 2019 in France and Belgium.

We expect underlying demand for Worldline's solutions will likely be strong in the coming years as a result of the continued shift to non-cash payment transactions. This will be helped by somewhat low penetration of non-cash payments in countries where Worldline currently operates (including Germany, France, and Belgium), and banks' increasing willingness to outsource. Regulation is also a potential growth driver. For instance, the EU's latest Payment Services Directive (PSD2) and instant payment, which requires banks to allow access to payment accounts to registered third parties that can initiate payments, and strong authentication capabilities, could generate additional revenues for Worldline. This is because we understand the company has the capability to provide the required services. Furthermore, lower interchange fees from 2016 have resulted in lower revenues for financial institutions, and could continue to create additional opportunities for Worldline. We also think that Worldline's investments in its own IT platforms and software provide additional differentiation that could support revenue growth.

However, Worldline faces competition from a large number of European and American payment processing providers, given the highly fragmented structure of the market. Key players include Nets A/S, Worldpay Group PLC, and First Data Corp. Other weaknesses include limited leading positions in a still fragmented European payment market, apart from specific segments in certain countries; moderate profitability (albeit likely to improve in the coming years on expected synergies from the SPS acquisition); and the group's exposure to evolving technology risks such as security breaches.

Worldline posts significant FOCF after low capital expenditure (capex) and positive discretionary cash flow (DCF), given its modest dividend policy and very strong balance sheet. The company has reported a net cash position over the past five years, with the S&P Global Ratings-adjusted debt to EBITDA well below 1x over that period. After a temporary peak at 2.2x in 2019, we expect the adjusted debt-to-EBITDA metric will return to below 1.5x in 2020.

These strong metrics are somewhat tempered by the company's financial policy, which targets a leverage ratio between 1.5x and 2.5x, translating into our adjusted debt to EBITDA metric of 2x-3x. Management has shown its interest in participating in the industry's consolidation, with eight acquisitions over the past three years. So far, those transactions have not resulted in meaningful debt, since the largest (Equens in 2016 and SPS in 2018) were funded primarily with Worldline shares. However, we think future acquisitions could be debt funded and, if they are material or result in adjusted debt to EBITDA remaining above 2x, lead us to revise our assessment of Worldline's financial risk profile downward.

Outlook

The stable outlook reflects our expectation that Worldline will post healthy organic revenue and EBITDA growth, resulting in annual FOCF surpassing €270 million, with adjusted debt to EBITDA at 1.5x-2.5x.

Downside scenario

We could downgrade Worldline if the company were to finance acquisitions in a manner that results in the adjusted debt-to-EBITDA ratio rising toward 2.5x, or if revenue and EBITDA growth slowed, possibly due to increased competition.

Upside scenario

Rating upside is limited, given the company's financial policy, appetite for acquisitions, and its current scale and profitability. However, we could raise the rating if the adjusted debt-to-EBITDA ratio was sustainably below 1.5x.

Company Description

Worldline is the leading provider of payment services in Europe with €2.2 billion of pro forma revenue in 2018. It operates through three business lines:

- Merchant Services (46% of revenues in the first half of 2019) offers merchants a range of payment-related and value-added services, including in-store, online, and mobile payment acceptance solutions, and a range of data analytics and private label card and loyalty services.
- Financial Services (39%) delivers solutions that allow banks and financial institutions to outsource some or all of their key business processes, such as issuance of credit and debit cards and authorization of associated payments, processing of non-card electronic payment transactions, and offering of multi-platform online banking services (including online bank electronic payments).
- Mobility & e-Transactional Services (15%) provides services to address the needs of private- and public-sector clients, like e-government collection services, e-ticketing, e-consumer, and mobility solutions.

In May 2019, Worldline's main shareholder, Atos, reduced its stake to 27.4% from 50.8%. We assume Atos could dispose of its residual 27.4% stake in Worldline in 2019 or 2020 (see "French IT Services Company Atos Affirmed At 'BBB+'; Outlook To Negative On Planned Decrease Of Worldline Stake," published Jan. 31, 2019, on RatingsDirect).

Our Base-Case Scenario

We assume:

- Organic revenue growth of 6%-8% in the coming years, supported by increasing card penetration, more outsourcing from banks due to regulatory changes, and to some extent a more favorable business mix with a greater share of the rapidly expanding merchant segment after the SPS acquisition.

- Reported revenue growth in 2019 of 35%-40% including consolidation of SPS.
- An adjusted EBITDA margin of 20.5% in 2019, up from 19.4% in 2018, as a result of scale benefits and cost synergies from the integration of Equens, acquired in September 2016. Once SPS is integrated and Worldline achieves the €110 million of cost and revenue synergies targeted by 2022, we think margins could expand further. However, in 2019, the benefits will be balanced by integration costs.
- Capex of about 5% of sales.
- Annual dividend payments of 25% of the previous year's net income.

Based on these assumptions, we arrive at the following credit measures:

- S&P Global Ratings-adjusted leverage peaking to about 2.2x in 2019 before improving to 1.5x in 2020.
- Reported FOCF of between €270 million and €290 million in 2019 and increasing further in the following years, after €208 million in 2018.

Liquidity

We assess Worldline's liquidity as exceptional because we expect sources of liquidity to exceed uses by well above 2x over next two years. Furthermore, the company is likely to maintain its prudent financial risk management. Moreover, we believe Worldline could absorb low-probability, high-impact events without refinancing. Furthermore, the group's net sources are likely to remain positive even if EBITDA declines by 50%, according to our calculations.

Principal liquidity sources as of June 30, 2019, include primarily:

- Cash and cash equivalents of €315 million;
- A revolving credit facility worth €600 million maturing in December 2025; and
- Funds from operations of €420 million.

Principal liquidity uses as of June 30, 2019, include primarily:

- Debt maturities of about €180 million in the next 12 months;
- Annual capex of €110 million-€120 million; and
- Annual dividend payments of €50 million-€65 million.

Worldline must comply with a leverage covenant stipulating debt to EBITDA of below 2.5x. We calculate the headroom under this covenant at 25%-30% in 2019 and more than 50% in 2020.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/--

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Financial policy: Negative (-1 notch)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Technology Software And Services Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- French IT Services Company Atos Affirmed At 'BBB+'; Outlook To Negative On Planned Decrease Of Worldline Stake, Jan. 31, 2019

Ratings List

New Rating	
Worldline SA	
Issuer Credit Rating	BBB/Stable/--